Chief Financial Officer's Report

Sustainable growth

Group Overview

The solid results reported here have been achieved against a background of continuous strategic change that the Group embraces to secure a base for sustainable earnings.

The broader base of the Group was an enabler for the 21% increase in headline earnings per share to 95 cents (2005: 78.7 cents). This was achieved despite the fact that 6.8 million new ordinary shares were issued on the last day of the previous year with the conclusion of the Swabou merger. Earnings attributable to ordinary shareholders increased by 21% to N$255.6 million (2005: N$210.9 million).

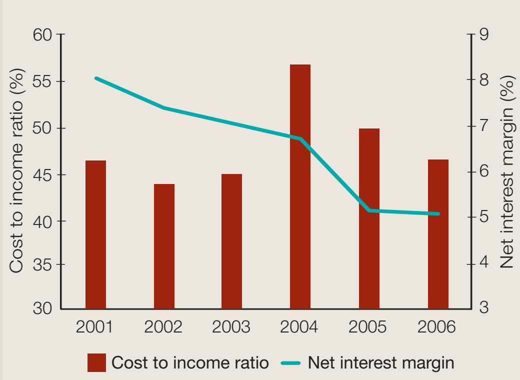
Relative contributions to headline earnings from the main components in the Group are set out in the table below:

	2006	2005
Banking operations	86%	88%
Life Assurance	15%	11%
Short-term insurance	(1%)	1%
Total	100%	100%

Banking continues to make the most significant contribution. The exceptional results of the life business bear testimony to the Group's ability to unlock synergies with focussed cross selling, foundation for the creation of a sustainable earnings base.

Despite the fact that the net interest margin reduced substantially, the Group's cost to income ratio has continued to recover as a result of cost controls, operational efficiencies and improved economies of scale since the merger, as illustrated in the chart.

Cost to income ratio vs net interest margin



Change in accounting environment

These financial statements are compliant with International Financial Reporting Standards ('IFRS'). The Group's opening balance sheet at 1 July 2005 has been restated in accordance with IFRS1 'First time Adoption of IFRS'. The transition effect from Standards of Namibian Generally Accepted Accounting Practice to IFRS on the Group's equity at 1 July 2004 and 30 June 2005, and earnings for year ended 30 June 2005, was disclosed in the 31 December 2005 interim results. The adjustments were mainly as a result of the following standards:

IAS 39: Financial Instruments: Recognition and Measurement

The Group previously calculated impairment on loans and advances on an expected loss basis. Under IFRS, the impairment is now calculated using the incurred loss basis. An impairment is also created for Incurred But Not Reported ('IBNR') losses, to allow for latent losses. This change resulted in an increase in portfolio

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impairments of N$39.5 million (N$29.1 million after tax), which has been adjusted against opening retained income and advances as at 1 July 2005.

IAS 18: Revenue and IAS 39: Financial Instruments: Recognition and Measurement

Previously the Group recognised immediately all fees charged and costs incurred on originated loans in the income statement. Under IFRS, it will spread yield-related fees and expenses over the average expected life of the specific portfolio on which the fees and expenses are earned or incurred. This change resulted in a net fee income deferral of N$6.3 million, which was adjusted against opening equity and advances as at 1 July 2005.

IFRS 2: Share based payments

The Group now records the cost of share options awarded to employees and other share-based payment transactions on a fair value basis. This change resulted in a new cost in the current year of N$0.8 million for staff share options and N$1.2 million for BEE Consortium share options.

IFRS 4: Insurance contracts

Previously Swabou Life deferred over 12 months commissions that were recognised in the income statements. Under IFRS, these commissions are now recognised immediately. This change resulted in the recognition against equity as at 1 July 2005 of N$6.1 million which was previously deferred.

In addition, a new interpretation of IAS 19 on employee benefits resulted in the creation of a deferred staff cost asset equal to the value of the low-interest staff loan impairment. This statement requires that the difference in the loan amount and its fair value be recorded as a separate asset; in essence, a prepaid staff expense. The initial adjustment was made to reserves with subsequent charges and releases through the income statement. This had the effect of increasing the net asset value of the Group by N$33.6 million.

The newly created asset has the same value as the previously recognised impairment. The asset will be amortised through staff costs, while the impairment will be released at the same rate on the interest line, as in the past, resulting in a zero income statement effect.

The table in the next column summarises the impact of the change in accounting environment.

N$ million	After tax effect on Opening Equity	Pre-tax effect on 2005	Pre-tax effect on 2006
Impact of IFRS			
Portfolio impairments	(29.1)		(2.7)
Property and equipment	(0.3)	1.4	(0.6)
Insurance contracts	(6.1)		(1.8)
Fees and expenses	(4.1)		(3.9)
Share based payment			(2.0)
Total impact of IFRS	(39.6)	1.4	(11.0)
Impact of change in Accounting policy			
Deferred staff costs	33.6	(2.8)	9.6
Total impact	(6.0)	(1.4)	(1.4)

Banking Operations

FNB Namibia Banking Group ('the Banking Group')

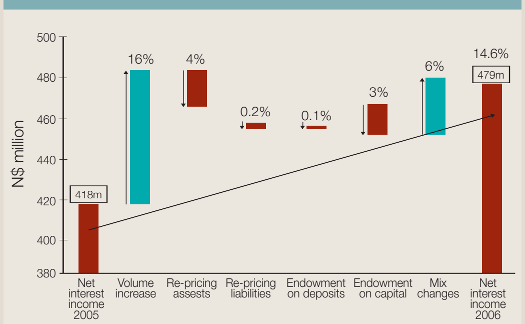
The Banking operations of the Group consist of First National Bank of Namibia Limited and its wholly owned subsidiary, Swabou Investments (Pty) Ltd, which houses the home loan book of the formerly known Swabou Bank Limited.

Income statement

The Banking Group had a successful year with a 16% increase in earnings to N$199 million.

Net interest income: The 15% growth in net interest income lagged the 19% increase in advances as a result of continued pressure on margins in the Banking Group, as well as growth in advances weighted towards the end of the year. Another contributing factor was the endowment effect of the 50 basis point decrease in prime interest rate in May 2005. The negative effect was countered by improving the mix on the funding side. Prime remained stable for most of the year, with a 50 basis point increase in June 2006.

Analysis of interest margin for Banking Group



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Components of impairment charge	Current year			Prior year		
N$ million	Net interest income	Impairment charge	2006 Net	Net interest income	Impairment charge	2005 Net
Present value adjustments on security of NPL	11.5	(14.7)	(3.2)	12.6	(11.5)	1.1
Net charge in specific bad debt impairment		(14.3)	(14.3)		(0.1)	(0.1)
Total specific impairment charge		(29.0)			(11.6)	
Increase in portfolio impairment		(0.3)	(0.3)		(11.2)	(11.2)
Net effect of impairments	11.5	(29.3)	(17.8)	12.6	(22.8)	(10.2)

Impairment losses: The specific impairment charge of N$14.3 million as a percentage of gross average advances remains low at 0.2%. This is not comparable to the prior year, which was distorted by recoveries on the Swabou/CSIB book. The ratio should normalise with an increase in interest rates expected in the new year.

The present value impairment charge on non-performing loans of N$14.7 million (see table above) is based on the security values of non-performing loans. This increase reflects both growth in advances and the higher discount rate arising from June 2006's increase in prime interest rate.

Following the conversion to IFRS, the portfolio impairment is calculated using the incurred loss basis and not expected future losses as in the past. Higher interest rates are expected to negatively impact on this charge.

Fee and commission income: Commissions increased by 16%, benefiting directly from higher volumes in retail branches. The Banking Group encouraged clients to use more cost effective self service channels. This benefited both clients and the business as lower delivery costs were passed on directly. Exchange earnings recorded strong growth of 22%, despite stable exchange rates for most of the year.

Operating expenses: The Banking Group's operating costs were kept at a year on year increase of 9%, although non-interest revenue as well as advances grew by 17%. The improvement in efficiencies is clearly illustrated by measuring this 9% increase against the increase in advances and an average annual inflation rate of 5%. Operating costs grew at a slower rate than non-interest income. A specific focus on containing costs – through benefits of scale and greater efficiencies – was successful.

Balance sheet

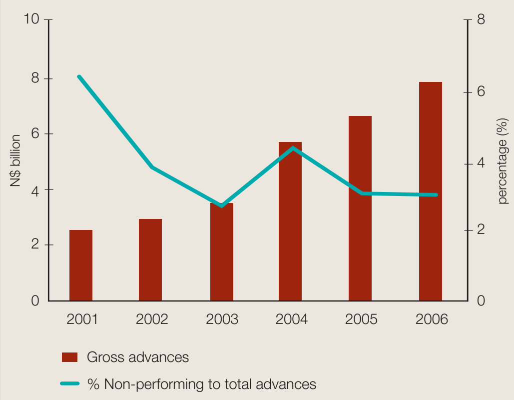
The Banking Group's total assets grew by 17%, with gross advances increasing by 19% to N$8.1 billion.

Overdrafts performed particularly well - increasing by 29% to N$1.2 billion. Home loans and WesBank remained market leaders, despite healthy competition. Home loans accounted for just over 50% of the notional value of the Group's advances.

Despite the growth in advances, the quality of assets remained good. The percentage of non-performing advances to gross advances remained at 3%. Below is an analysis of the impairment balances and a chart illustrating the healthy profile of advances.

Analysis of impairment held				
N$ million	Present value on non-performing loans	Specific bad debt impairment	Portfolio impairment	Total
Balance 1 July 2005	11.5	58.0	52.3	121.8
IFRS adoption			39.5	39.5
Unwinding, release or write off	(11.5)	(12.1)		(23.6)
Income statement effect	14.7	14.3	0.3	29.3
Balance 30 June 2006	14.7	60.2	92.1	167.0

Performing advances vs. non-performing advances



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Insurance Operations

Swabou Life Assurance Company

The embedded value ('EV') of Swabou Life increased from N$155.2 million to N$219.5 million, year on year contributing to a compound growth of 42% since the merger.

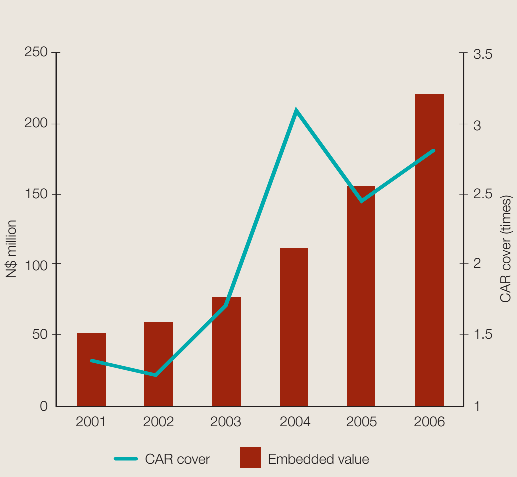
Swabou Life produced excellent results. Earnings after tax increased by 71% to N$34.9 million for the year. The strong performance was mainly driven by:

- new business growth from synergies between the life company and the bank;
- new products launched during the year; and
- above expected returns on the investments portfolio as the market strengthened.

Excellent support from independent brokerages also saw premium income increase by 28%.

Growth in embedded value is seen in the chart below.

Embedded value vs. CAR cover of Swabou Life



Swabou Insurance Company

Notwithstanding the 26% growth in gross premium income, integration with the bank is not yet fully realised. As a result, the Company did not achieve sufficient economies of scale to absorb large claim events and was negatively impacted by excessive motor claims and claims relating to floods during the year. These factors contributed to a decrease in solvency margin from 83.9% in 2005 to 77.7% in 2006 and a break-even in profit after tax for 2006. The very high solvency margin level will be maintained until the board-approved turnaround strategy is working effectively.

Capital Management

Banking Group

For a banking institution, capital serves as a foundation for growth and a cushion against unexpected losses. It mitigates economic risks that might otherwise threaten its continuation or lead to loss of confidence by stakeholders.

The Bank of Namibia regulates commercial banks by requiring them to hold a minimum amount of capital, equal to or more than 10% of the calculated risk-weighted assets. As a subsidiary of FirstRand Bank Holdings Limited, regulated by the South African Reserve Bank ('SARB'), the Banking Group also needs to abide by SARB regulations currently requiring a minimum of 10% of the SARB method of calculated risk-weighted assets.

The Bank of Namibia allows the appropriation of current year profits to capital only on audited results. Maximum exposures to large customers are linked to the capital base. The relatively higher cost of capital, as against debt, means capital levels have to be managed to the minimum required, thus increasing the true economic value added to shareholders.

The Group's capital management framework covers the following aspects:

- book capital (shareholder funds or accounting capital - Net Asset Value),
- regulatory capital; and
- economic capital.

The capital management framework is built on three pillars:

- Capital levels are calculated in an optimal way to satisfy both regulator and shareholder requirements. They are structured to achieve prudent and appropriate gearing levels.
- Capital is invested in the Bank's funding pool and is managed as part of the overall interest rate risk management process.
- The Bank aims to accurately allocate capital to business units on an economic risk basis to ensure an appropriate return on capital invested.

The board of directors approved a buffer above the 10% minimum level determined by the Bank of Namibia. This is mainly to allow for growth throughout the year until profits are appropriated to capital.

Economic capital is defined as the capital which the Banking Group must hold, commensurate with its risk profile, under severe stress conditions, to give comfort to third party stakeholders that it will be able to discharge its obligations in accordance with an indicated degree of

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certainty even under stress conditions, and would continue to operate as a going concern. Tests are performed regularly to assess whether the bank is appropriately capitalised. The buffer is also influenced by economic capital requirements.

Current capital requirements in the Banking Institutions Act 1998 (No 2 of 1998) are based on the International Capital Accord of the Basel Committee established in 1988. This capital accord has been revised and Basel II, as adapted by local authorities, will be effective from 1 January 2008.

The main changes lie in the calculation of risk-weighted assets and in attempts to align capital levels more closely to true underlying economic risks.

The Banking Group is committed to comply with Basel II when it is adopted. It does not seem likely that Basel II will require a material increase in our current economic capital estimates.

Capital adequacy of the Banking Group on 30 June 2006

N$ million	Balance 2006	Risk-weight 2005	%	Risk-adjusted balance 2006	2005
Risk-adjusted assets and off-balance sheet exposures					
Cash, including foreign currency, claims on government and Bank of Namibia	984.2	913.4	0		
Public sector body advances	273.0	211.1	10	27.3	21.1
Other bank advances and letter of credit	190.5	105.3	20	38.0	21.1
Mortgage advances (excluding commercial)	4 148.5	2 980.3	50	2 074.3	1 490.1
Other advances	4 080.6	3 952.6	100	4 080.6	3 952.6
Total	9 676.8	8 162.7		6 220.2	5 484.9

N$ million	2006	2005
Regulatory capital		
Tier 1		
Share capital and share premium	1 142.8	1 142.8
Retained profits	371.3	169.7
Opening balance	169.7	175.1
Current year profit	199.0	171.8
Dividend	(13.4)	(173.0)
Transfer from/(to) general risk reserve	16.0	(4.2)
Capital impairment:		
Intangible assets	(352.0)	(383.0)
Total tier 1	1 162.1	929.5
Tier 2		
General risk reserve, including portfolio impairment	100.2	76.4
Revaluation reserves	1.0	
Available for sale assets	0.2	
Staff share option cost	0.8	
Total tier 2	102.2	76.4
Total tier 1 and tier 2 capital	1 264.3	1 005.9
Risk-weighted capital ratios		
Tier 1	18.7%	17.0%
Tier 2	1.6%	1.4%
Total	20.3%	18.4%

Insurance operations

Swabou Life's policy is to invest capital required for the Capital Adequacy Requirement ('CAR') in cash or near cash instruments, and to invest the balance in equities.

The CAR for Swabou Life Assurance Company Limited is based on there being a sufficient excess of assets over liabilities to guard against severely negative conditions in future. The financial soundness valuation of Swabou Life disclosed free reserves of N$83.0 million at 30 June 2006, compared to N$61.2 million the prior year. CAR of N$29.9 million (30 June 2005: N$24.9 million) have been established. The free reserves covered the CAR 2.78 times (2005: 2.45 times).

The capital adequacy of Swabou Insurance Company Limited is measured by the solvency margin - the free reserve ratio of shareholders' funds expressed as a percentage of net premium income. The solvency margin at 30 June 2006 was 77.7% (2005: 83.9%), a sound and healthy position.

Gideon Cornelissen
CFO: FNB Namibia Group